DOCUMENT RESUME

ED 199 409 CE 028 151

TITLE	PACE. A Program for Acquiring Competence in Entrepreneurship. Part I: Getting Ready to Become an Entrepreneur. Unit A: Nature of Small Business. Research and Development Series No. 194 A-1.
INSTITUTION	Ohio State Univ., Columbus. National Center for Research in Vocational Education.
SPONS AGENCY	Bureau of Occupational and Adult Education (DHEW/OE), Washington, D.C.
BUREAU NO	498AH60218
PUB DATE	80
GRANT	G007603930
NOTE	95p.; For related documents see CE 028 152-169. Parts may not reproduce clearly.
AVAILABLE FROM	National Center Publications, The National Center for Research in Vocational Education, The Ohio State University, 1960 Kenny Rd., Columbus, OH 43210 (RD 194 A-1, $6.25; Part I of set, RD 194 A1-A3, plus D: $18.00; Part II of set, RD 194 B1-B7, plus D: $35.00; Part III, RD 194 C1-C8, plus D: $40.00; entire set of eighteen documents, $70.00).
EDRS PRICE	MF01/PC04 Plus Postage.
DESCRIPTORS	Adult Education; Behavioral Objectives; Business Administration; *Business Administration Education; Competency Based Education; Costs; Curriculum Guides; Higher Education; Instructional Materials; Learning Activities; Postsecondary Education; Pretests Posttests; Self Evaluation (Individuals); *Standards; Units of Study
IDENTIFIERS	*Entrepreneurs; *Small Businesses

ABSTRACT

This three-part curriculum for entrepreneurship education is primarily for postsecondary level, including four-year colleges and adult education, but it can be adapted for special groups or vocational teacher education. The emphasis of the three instructional units in Part I is understanding businesses. Unit A focuses on defining small business. It provides information on standards used to identify small businesses, different types of small businesses, and their impact on the economic system. Other topics include scope and trends of small business, start-up costs, future outlook, causes of business success and failure, and tasks of the entrepreneur. Material is organized into three levels of learning which progress from simple to complex concepts: Exposure, Exploration, and Preparation/Adaptation. Each level contains preassessment; teaching/learning objectives; substantive information (questions in margins guide the students' reading); activities, including a postassessment; and a self-evaluation. Definitions of important terms are found at the beginning of the unit; a bibliography and listing of sources for further information are appended. The four-page instructor's guide contains the teaching/learning objectives, teaching/learning delivery suggestions, and pre/postassessment suggested responses. (YLB)

ED199409

Research and Development Series No. 194 A-1

P A C E

A PROGRAM FOR ACQUIRING COMPETENCE IN ENTREPRENEURSHIP

PART I: Getting Ready to Become an Entrepreneur
UNIT A: Nature of Small Business

The National Center for Research in Vocational Education
The Ohio State University
Columbus, Ohio 43210

1980

CE 028 151

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

THE NATIONAL CENTER MISSION STATEMENT

The National Center for Research in Vocational Education's mission is to increase the ability of diverse agencies, institutions, and organizations to solve educational problems relating to individual career planning, preparation, and progression. The National Center fulfills its mission by:

- Generating knowledge through research
- Developing educational programs and products
- Evaluating individual program needs and outcomes
- Providing information for national planning and policy
- Installing educational programs and products
- Operating information systems and services
- Conducting leadership development and training programs

FUNDING INFORMATION

Project Title:	A Program for Acquiring Competence in Entrepreneurship (PACE)
Contract Number:	G007603930
Project Number:	498AH60218
Educational Act Under Which the Funds Were Administered:	Vocational Education Act of 1963, Part C amended in 1968 and in 1976. PL 90-576 PL 94-42
Source of Contract:	Department of Health, Education, and Welfare United States Office of Education Bureau of Occupational and Adult Education Washington, DC
Project Officer:	David H. Pritchard
Contractor:	The National Center for Research in Vocational Education The Ohio State University Columbus, Ohio 43210
Executive Director:	Robert E. Taylor
Disclaimer:	The material for this publication was prepared pursuant to a contract with the Bureau of Occupational and Adult Education, U.S. Department of Health, Education, and Welfare. Contractors undertaking such projects under Government sponsorship are encouraged to express freely their judgment in professional and technical matters. Points of view or opinions do not, therefore, necessarily represent official U.S. Office of Education position or policy.
Discrimination Prohibited:	Title VI of the Civil Rights Act of 1964 states: "No person in the United States shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance." Title IX of the Education Amendments of 1972 states: "No person in the United States shall, on the basis of sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any education program or activity receiving Federal financial assistance." Therefore, the National Center for Research in Vocational Education, like every program or activity receiving financial assistance from the U.S. Department of Health, Education, and Welfare, must operate in compliance with these laws.

PART I: GETTING READY TO BECOME AN ENTREPRENEUR

UNIT A: NATURE OF SMALL BUSINESS

TABLE OF CONTENTS

Page

FOREWORD v

HOW TO USE PACE vii

OVERVIEW OF THE UNIT ix

DEFINITIONS TO KNOW BEFORE YOU BEGIN xi

PACE PATH OF STUDY viii

LEVEL I: EXPOSURE

PREASSESSMENT 1

TEACHING/LEARNING OBJECTIVES 2

SUBSTANTIVE INFORMATION 3

Defining Small Business 3
Small Business in Our Economy 6
Number of Small Businesses 10
Small Business Risks 11
Advantages of Being a Small Business 12

ACTIVITIES 15

Assessment One 15
Assessment Two 18
Postassessment 18

SELF-EVALUATION 19

LEVEL II: EXPLORATION

PREASSESSMENT 21

TEACHING/LEARNING OBJECTIVES 22

Page

SUBSTANTIVE INFORMATION..... 23

Understanding Small Business..... 23
Types of Small Businesses..... 24
Opportunities Available..... 28
Characteristics of Our Economic System..... 32
Problems of Small Businesses..... 37

ACTIVITIES..... 40

Assessment One..... 40
Postassessment..... 41

SELF-EVALUATION..... 42

LEVEL III: PREPARATION/ADAPTATION

PREASSESSMENT..... 43

TEACHING/LEARNING OBJECTIVES..... 44

SUBSTANTIVE INFORMATION..... 45

The Future of Small Business..... 45
Advantages of Being Small..... 55
Changes in Consumer Behavior..... 57
Economic Conditions and Small Business..... 60
Small Business Administration..... 64

ACTIVITIES..... 69

Assessment One..... 69
Postassessment..... 70

SELF-EVALUATION..... 70

BIBLIOGRAPHY..... 73

SOURCES TO CONSULT FOR FURTHER INFORMATION..... 75

FOREWORD

Traditionally vocational education has been geared primarily to preparing students for employment--to preparing employees. Yet there is another career path available; students can learn how to set up and manage their own businesses. They can become entrepreneurs.

Vocational education, by its very nature, is well suited to developing entrepreneurs. It is important that entrepreneurship education be developed and incorporated as a distinct but integral part of all vocational education program areas. A Program for Acquiring Competence in Entrepreneurship (PACE) represents a way to initiate further action in this direction.

The strength behind these instructional units is the interest and involvement of vocational educators and successful entrepreneurs in the state of Ohio and across the nation. Special recognition is extended to the project staff: Lorraine T. Furtado, Project Director and Lee Kopp, Program Associate. Appreciation is also expressed to the many who reviewed and revised the drafts of the units: Ferman Moody, Hannah Eisner, and Sandra Gurvis. We owe a special thanks to those consultants who contributed to the content of this publication: Carol Lee Bodeen, Louis G. Gross, Douglass Guikema, Peter G. Haines, Philip S. Manthey, Charles S. McDowell, Mary E. McKnight, Steven R. Miller, Barbara S. Riley, Barbara A. Rupp, Ruth Ann Snyder, Robert L. Suttle, Florence M. Wellman and Roy H. Young.

Robert E. Taylor
Executive Director
The National Center for
Research in Vocational Education

HOW TO USE PACE

A Program for Acquiring Competence in Entrepreneurship (PACE) is a curriculum responsive to the need for instruction in entrepreneurship. It is primarily for postsecondary level, including four year colleges and adult education, but it can also be adapted for special groups. PACE is divided into three parts (1) Getting Ready to Become an Entrepreneur, (2) Becoming an Entrepreneur (establishing a business), and (3) Being an Entrepreneur (operating a business).

Each of the three parts has a set of instructional units which relate to that topic. Within these units, the material is organized into three levels of learning: Exposure, Exploration, and Preparation/Adaptation. These levels of learning progress from simple to complex concepts.

The levels of learning will enable you to use the PACE materials to suit your individual needs. You may find it best to work with the exposure level of one unit and the exploration level of another. Or, you may choose to pursue one level throughout the entire series. You might also want to work through two or more levels in one unit before going on to the next unit.

Before beginning a unit, discuss with your instructor what level or levels of learning in that unit are most appropriate to your goals and abilities. Read the unit overview and look through the pre/post-assessments for the three levels to help you in your choice. Also check the list of definitions you might need to look up or research for that level.

When you are ready to start, turn to the level you have chosen, take the preassessment and identify those items which you feel need special attention in the unit. Also look at the learning objectives; they will tell you what you should be able to do by the time you finish that level of learning.

As you read, you will notice questions in the margins alongside the substantive content portion of each level. Use these questions to guide your reading.

At the end of each level of learning are activities which help you become involved with the content presented in the unit. You and your instructor can decide on how many activities you should do; you may want to do several or you many need to do all.

Then, evaluate yourself. Is there any material that you need to review before you take the postassessment? The difference in your answers on the pre/postassessments should show you how much you have grown in your knowledge of entrepreneurship.

When you and your instructor feel that you have successfully completed that level, you are ready to begin another level of learning, either in the same unit or in another.

OVERVIEW OF THE UNIT

This unit focuses on defining small business. Is a business small because of the number of workers it employs? Because gross sales are under a certain dollar amount? Because of the square footage it occupies? Is American Motors Company a small business because it is smaller than General Motors, Ford, and Chrysler?

Since regulations affecting the operation of enterprises are often based on business size, it is important to know what standards are used to identify small businesses. Information included in the unit will give you insight into different types of small businesses including wholesaling, manufacturing, service, and retailing businesses; and the impact small businesses make on our economic system.

An in-depth examination of the scope and trends of small businesses, start-up costs for typical businesses, and the future outlook for small businesses are included in this unit. The unit also provides a brief discussion of the causes of business success and failure, and examines the tasks of the entrepreneur.

The material in this unit is intended to prepare you to better answer the questions, "What is a small business?" and "How important is small business to our economy?"

DEFINITIONS TO KNOW BEFORE YOU BEGIN

As you read through a level, you might find some unfamiliar words. Listed below are several business terms used in each level. Knowing these before you begin might help you to better understand that level.

EXPOSURE

capital supplies
demand
enterpreneur
fixed assets
franchise
free enterprise system
gross national product
inventory
profit
retail
sales volume
service
small business
supply
wholesale

EXPLORATION

capital requirements
demand
depressed market
disclosure
discretionary income
entrepreneur
franchise
free enterprise
gross national product
inflation
inventory
market economy
recession
sales volume
service enterprise
small business
sole proprietorship
supply
undercapitalization
wholesaler

PREPARATION/ADAPTATION

conglomerates
consignment
demand
discretionary income
entrepreneur
franchise
gross national product
inflation
inventory
recession
retail
service
undercapitalization
wholesale

PACE

PATH OF STUDY

PART I - GETTING READY TO BECOME AN ENTREPRENEUR

Unit I A -- Nature of Small Business

Unit I B

Unit I C

PART II - BECOMING AN ENTREPRENEUR

Unit II A

Unit II B

Unit II C

Unit II D

Unit II E

Unit II F

Unit II G

PART III - BEING AN ENTREPRENEUR

Unit III A

Unit III B

Unit III C

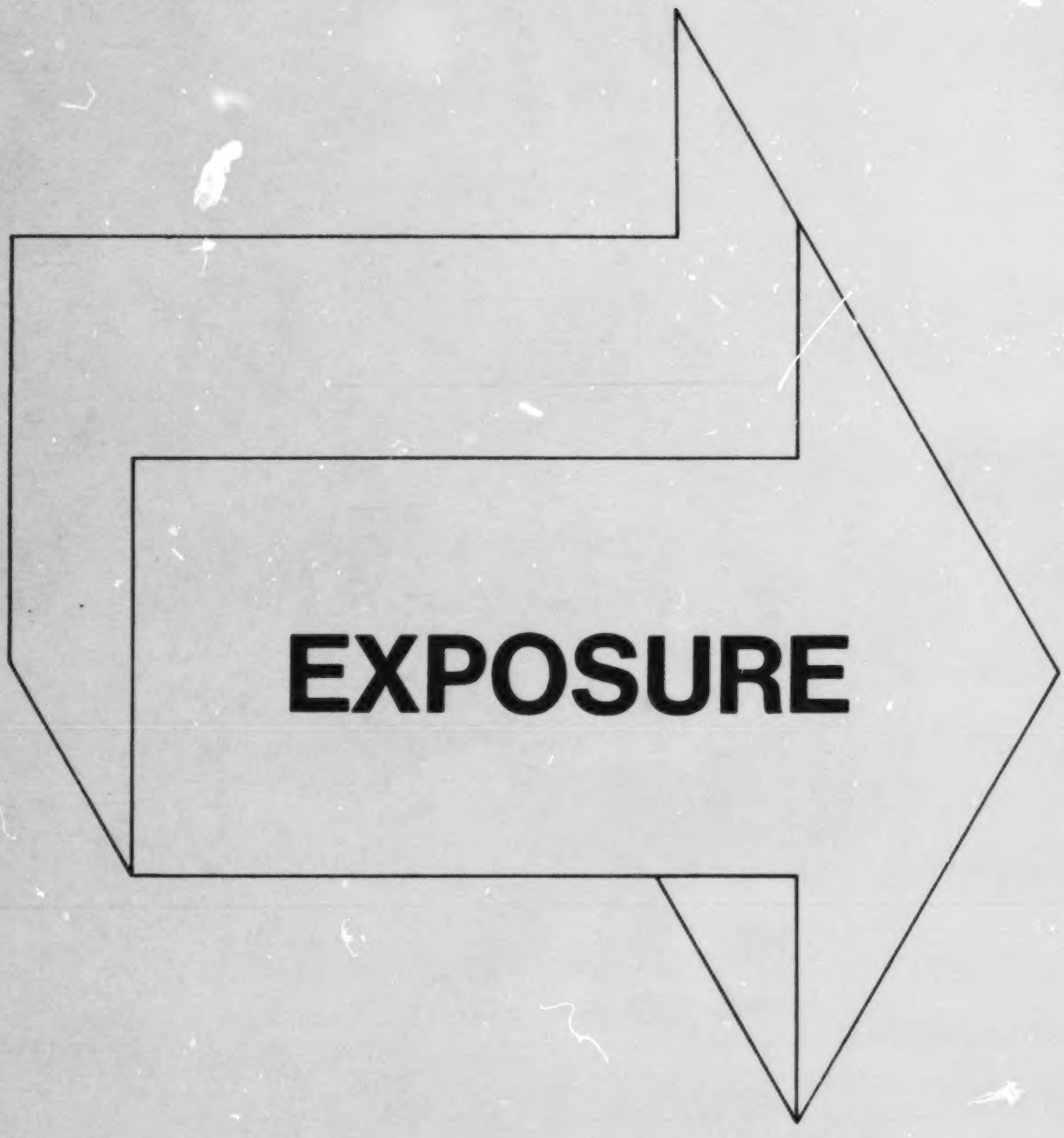
Unit III D

Unit III E

Unit III F

Unit III G

Unit III H


EXPOSURE

EXPOSURE

PART I, UNIT A
NATURE OF SMALL
BUSINESS

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exposure Activities" section and measure what you've learned.

1. What is a small business?
2. What causes businesses to fail?
3. How important is making a profit?
4. How important are small businesses in today's economy?
5. What advantages do small businesses have?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction, you should be able to:

1. Define small business.
2. Identify some of the factors used in defining a small business.
3. Explain what is meant by "the profit motive."
4. Define profit, supply and demand, and freedom of choice.
5. Describe the role of small business in our economy.
6. Name some of the major causes for business failures.

SUBSTANTIVE INFORMATION

DEFINING SMALL BUSINESS

WHAT IS A SMALL BUSINESS?

What is a small business? Most of us would probably agree that the neighborhood ice cream parlor is a small business, while General Motors is a big business. However, the real problem in defining small business is not in distinguishing the ice cream parlor from General Motors, since these are two extremes. The problem arises when we compare Jacobs Printing Shop and Ink Print. A firm considered small business in one industry might be big business in another. A firm the size of American Motors would probably be a giant in the fast copy printing business, yet it is a very small business compared to General Motors and Ford. The basic question, then is, "How big does a business need to be before it is no longer a small business?" Most definitions of small business answer this question and are based on measures such as the number of employees, the annual sales volume, and the type of ownership.

Small Business Administration Definition

HOW CAN SMALL BUSINESS BE DEFINED?

Obviously, determining a definition for "small" is not a simple task. The Small Business Administration (SBA) definition is perhaps the one most commonly used. The SBA describes a small business as "one which is individually owned and operated and not dominant in its field of operation."

In 1953 the United States Congress passed the Small Business Act which authorized the establishment of the Small Business Administration. The SBA was originally a Korean War program that dealt with military contracts which supplied small plants. The SBA's major purpose is still to aid small businesses in bidding on government contracts.

For its loan program the SBA has established a "size" factor to determine "small." The size of the business determines if the firm can borrow from the SBA. At the time the Small Business Act was passed, a wholesaler was considered small if the firm grossed five million dollars or less annually. Retail and service firms are considered small if their annual gross income is one million to five million dollars depending on the type of business. In the construction business, a firm is considered small if it does not gross over 7.5 million dollars annually.

In manufacturing, it is based on number of employees and the industry. Apparel and textile companies are regarded as "small" if they have no more than 250 employees. For producers of aircraft and ammunition, the number is 1,500. In the service industries, the criterion is dollar volume: a maximum of $5 million for department stores, groceries and auto dealers, and $1 million for most other retailers; $5 million for general contractors; and $5 million for most wholesalers. To reflect inflation, the SBA is now revising the sales figures upward by as much as 10%. (Business Week, June 30, 1975, p. 97)

Committee for Economic Development Definition

ARE THERE OTHER DEFINITIONS FOR "SMALL BUSINESS?"

One of the most useful definitions of a small firm was developed by the Committee for Economic Development. The committee asserted that, to be considered a small business, a firm must possess two of the following characteristics:

(1) The firm must be independently managed, usually by an owner/manager

(2) The firm must be owned by, and receive capital supplies from an individual or a small group

(3) While markets need not be local, the firm must maintain localized operations; that is, the owner and employees must live in one "home" community

(4) When compared with the biggest firms in the industry, the firm must be relatively small in size. (Adapted from Meeting the Special Problems of Small Business, p. 14)

SMALL BUSINESS IN OUR ECONOMY

DO SMALL BUSINESSES AFFECT OUR ECONOMY?

Each business, whether it is a retail, service, wholesale, or manufacturing concern, has an impact on our economy. In order to understand the role of small business in our economy you will need to possess some knowledge of economics.

This unit is not designed to make you economists; however, it will provide you with at least a minimum understanding of economic concepts and principles.

The field of economics is highly specialized and is puzzling to many Americans. Economics is simply what you do each day when you exchange a day's work for a day's pay and when you exchange a day's pay for the goods and services you buy. An economic system is the structure by which the country combines its resources, labor, and skills to produce and distribute the enormous variety of goods and services people need and want. When you purchase a stereo system, you are making an economic decision. That decision is as important to you as the economic decisions made by businesses. As you can see, even though "economics" sounds complicated, it is something we engage in every day.

Freedom of Choice

WHAT DOES FREEDOM OF CHOICE MEAN IN OUR ECONOMY?

In the early days of America, our government exercised little control over businesses. Today, there is government influence on some business decisions. Yet we still have much freedom of economic choice. In our country all people have both the right and the freedom to choose their personal goals and to decide how their work and resources will be used. Any person can choose to be self-employed.

The Profit Motive

WHAT IS THE PROFIT MOTIVE?

The growth of our economy has been directly affected by the vision and orginality of those who open new enterprises--by entrepreneurs. A free enterprise system such as ours dependent on people who start new enterprises for goods, services, and jobs. Entrepreneurs take on the risks of financing a business in anticipation of earning a return on their investment. The amount of profit they actually earn can vary widely, depending upon such factors as consumer demand, business costs, and government policies.

Our economic system and business continuity is dependent upon the profit motive. Profit is the difference between costs of products or services and monies received in return for their sale, and is one of the main reasons for entering into business and the reward for staying in business. The profit motive must be a long-range rather than a short-range concern of every entrepreneur.

Supply and Demand Factors

WHAT'S THE IMPORTANCE OF SUPPLY AND DEMAND?

The principles of supply and demand are important in our economy. Every day, you probably make decisions whether to buy products and services. These decisions directly affect our economy. Our willingness and ability to spend our money for certain goods and services is called demand. Our demand for goods and services affects the efficiency of producers. In economic terms, supply refers to the quantities of a product offered for sale at a given time for a certain price. Successful producers are those who keep offering the goods and services that buyers want. Supply and demand forces ultimately determine the levels of production and employment.

Citizen's Band (CB) radios are a good example of the principles of supply and demand. When CB radios first hit the market, the supply was limited and the price was relatively high. People were willing to pay a high price for the product that was short in supply but large in demand. Now, supply exceeds demand, and the prices are subsequently lower. In other words, CB

radios have been manufactured in such great quantities that now the market demand is not as great as it was at first and prices have beome relatively low.

The Cuisinart food processor is another example of supply and demand.

> *In the end, Sontheimer's Cuisinart food processor created a whole new segment of the kitchen appliance industry, a segment so promising and growing so explosively that a host of imitators rushed in with machines of their own, most of them at lower prices: Farberware ($89.99), American Electric ($60), Waring ($160), Hamilton Beach ($89.95).*
>
> *The new competition could hardly fail to cut into Cuisinarts' market, some with good products, some with what Sontheimer dismisses as junk, but at the moment the demand is growing so rapidly and Sontheimer has been so busy meeting the demand he hasn't had to worry about competitors. "Our sales keep climbing," he says. "Our marketing director says our competitors have given the public a basis for comparison."*
>
> *What does all this amount to in dollars? Not a great deal--yet. Combined, the various manufacturers probably sold 500,000 units last year, and Sontheimer's company, of which he and his wife own 100%, had at least half of the market, which is interesting in its own right: that the most expensive product should be the best seller. Altogether, Cuisinarts sold about $50 million worth of processors last year. But what the profits are Sontheimer resolutely refuses to say. "I'm here to stay--even when demand does peak"--and cites the 5 million blenders sold in the U.S. every year, though the market has long since matured.*
>
> (Forbes, March 6, 1978, p. 66) Reprinted by permission of Forbes Magazine from the March 6, 1978 issue.

NUMBER OF SMALL BUSINESSES

HOW MANY SMALL BUSINESSES ARE THERE?

It is difficult to say exactly how many small businesses there are in the United States. People with regular jobs often have a small business that is operated seasonally or on weekends and evenings. An example would be a concessionaire who operates a food stand at state and county fairs or similar functions. A full-time small business could be run by a person who buys jewelry in Mexico, then returns and sells it to nearby businesses. This individual is the buyer, seller, distributor, creditor, and bookkeeper--in other words, the business is strictly a one-person operation.

There are approximately nine million part and full-time small businesses in the United States. A quarter of a million new business are started each year. Fewer than one-half of 1% employ as many as twenty-five hundred employees. There are more small businesses today per one thousand population than at any other time in our history.

On the other hand, we cannot ignore the fact that the few very, very large businesses--those who have one thousand or more employees--do provide approximately 40% of the total paid employment. There is no doubt that the giant corporations have essential role in our economy. But the small firm still remains a dominant factor in our economy in terms of number of business units, volume of business, and the percentage of paid employment.

Prevalent Small Businesses

ARE SMALL BUSINESSES MORE IMPORTANT IN SOME INDUSTRIES THAN IN OTHERS?

Small businesses are relatively more important in certain industries than in others, with retail stores constituting the largest number. It is difficult to generalize about service businesses such as the dentist, vacuum sweeper pool service and dry cleaners because they differ so greatly in operations and type of services provided. Small wholesale firms also encompass all types of establishments selling a wide variety of products. Big business is strongest in manufacturing.

Over half of all the new small businesses that open each year are retail organizations of some type, including restaurants. New franchise outlets account for 5-10% of new businesses. Service and recreation fields such as campgrounds, motels, instant printing centers, placement centers, and indoor tennis courts are expanding the fastest.

SMALL BUSINESS RISKS

WHICH BUSINESSES FAIL?

Being an entrepreneur seems to be a dream of many Americans. Unfortunately many of these dreams don't last long. Experts say the smaller and newer business is the more likely it to fail.

> *More than half the firms that go out of business annually have been in existence for five years or less: the vast majority have annual sales of under $1 million. The reasons for this situation are simple: small businesses typically lack the capital and management know-how to cope with the adverse developments that all concerns face.* (The Wall Street Journal, November 29, 1977, p. 1) Reprinted by permission from The Wall Street Journal, © Dow Jones & Company, Inc. 1977. All rights reserved.

Many beginning entrepreneurs lack specific training in sales and accounting and are unused to thinking in terms of profit. The most common reasons for business failures are:

- Lack of experience
- Lack of money
- Wrong location
- Inventory mismangement
- Too much capital in fixed assets
- Poor credit-granting practices.

ADVANTAGES OF BEING A SMALL BUSINESS

ARE THERE ADVANTAGES TO BEING "SMALL"?

Many small businesses consider their size to be advantageous and capitalize on it.

> *We can be more flexible, can move more quickly, and concentrate on smaller segments of markets, notes David Bigelow, president of R. C. Bigelow Co., a Norwalk (CT.)- vased specialty foods outfit that grosses about $10 million a year.*
>
> *Bigelow's most successful product is a spiced tea, Constant Comment. General Foods had a competitive brand that was abandoned. Now Bigelow is battling GF again in spiced- and fruit-flavored instant coffees. This time, Bigelow concedes, 'General Foods has flattened us out a bit.'*
>
> *Nevertheless, Bigelow is bullish about the future of small business. "I feel the large corporations are failing in this country, leaving opportunities for small specialty companies," he says. "Big manufacturers are making such bad products. The big, discount-type retail operators run stores where no one gives a damn about the customer. So there are opportunities for small businessmen. But it takes a strong individual to handle them."*
>
> (Business Week, June 30, 1975, p. 97)

Small businesses can be very adaptable. They can quickly react to general economic conditions and competition.

Entrepreneurs and Optimists

WHAT CHARACTERISTICS DOES AN ENTREPRENEUR POSSESS?

There are many who believe that successful entrepreneurs have some unique personal characteristics--characteristics which those who are employed by others do not possess. Some people believe that the entrepreneur's personality can be a key to the success or failure of the business. Understanding the basic nature of entrepreneurs can provide you with some insight that will allow you to begin to conduct an assessment of your entrepreneurial instincts.

> *An entrepreneur is an optimist by definition, and overoptimism is what does companies in, asserts Kenneth Eaton, head of Associated Business Consultants. "When things are going well, the average businessman assumes they will continue to go well. When a problem arises, he assumes it will go away quickly by itself. By the time he wakes up to the fact that he really has a problem, it's often too late to do anything about it."* (The Wall Street Journal, November 29, 1977, p. 1) Reprinted by permission from The Wall Street Journal, © Dow Jones & Company, Inc. 1977. All rights reserved.

There are hundreds of businesses that were started with only a few thousand dollars that were worth millions of dollars within a few years. Many entrepreneurs have become millionaires, such as Frank Carney of Pizza Hut, who started with $600; Rocky Aioki of Benihana, who began with a borrowed $10,000; and Bob Wran of Bob's Big Boy, who, as a teenager, bought his first hamburger stand for $350.

If you are curious about your entrepreneurial attitudes, try the first assessment under "Exposure Activities" of this level.

EXPOSURE ACTIVITIES

There is no single definition of small business - several factors are used. Now that you have read about some of these factors and about small businesses, try these activites.

ASSESSMENT ONE

The questions below are designed to tell you something about your entrepreneurial attitudes.

DO YOU HAVE THE RIGHT ATTITUDE?

by Marlys Harris

1. *If you had a free evening, would you most likely*

   a) *watch TV*
   b) *visit a friend*
   c) *work on a hobby?*

2. *On your daydreams, would you most likely appear as*

   a) *a millionaire floating on a yacht*
   b) *a detective who has solved a difficult case*
   c) *a politician giving an election night victory speech?*

3. *To exercise, would you rather*

   a) *join an athletic club*
   b) *join a neighborhood team*
   c) *do some jogging at your own pace*

4. *When asked to work with others on a team, which would you anticipate with most pleasure:*

   a) *other people coming up with good ideas*
   b) *cooperating with others*
   c) *getting other people to do what you want*

5. *Which game would you rather play?*

   a) *monopoly*
   b) *roulette*
   c) *bingo*

6. *Your employer asks you to take over a company project that is failing. Would you tell him that you will*

   a) *take it*
   b) *won't take it because you're up to your gills in work*
   c) *give him an answer in a couple of days when you have more information*

7. *In school, were you more likely to choose courses emphasizing*

   a) *fieldwork*
   b) *papers*
   c) *exams*

8. *In buying a refrigerator would you*

   a) *stay within an established, well-known brand*
   b) *ask your friends what they bought*
   c) *compare thoroughly the advantages of different brands*

9. *While on a business trip in Europe you are late for an appointment with a client in a neighboring town. Your train has been delayed indefinitely. Would you*

   a) *rent a car to get there*
   b) *wait for the next scheduled train*
   c) *reschedule the appointment*

10. *Do you believe that people you know who have succeeded in business*

    a) *have connections*
    b) *are cleverer than you*
    c) *are about the same as you but maybe work a little harder*

11. *An employee who is your friend is not doing his job. Would you*

    a) *take him out for a drink, hint broadly that things aren't going right and hope he gets the message*
    b) *leave him alone and hope he straightens out*
    c) *give him a strong warning and fire him if he doesn't shape up*

12. *You come home to spend a relaxing evening and find that your toilet has just overflowed. Would you*

    a) *study your home-repair book to see if you can fix it yourself*
    b) *persuade a handy friend to fix it for you*
    c) *call a plumber*

13. *Do you enjoy playing cards most when you*

    a) *play with good friends*
    b) *play with people who challenge you*
    c) *play for high stakes*

14. *You operate a small office-cleaning business. A close friend and competitor suddenly dies of a heart attack. Would you*

    a) *reassure his wife that you will never try to take away any customers*
    b) *propose a merger*
    c) *go to your former competitor's customers and offer them a better deal*

How well do you think you did? Turn this page upside down to check your answers. Now score your paper. Are you a potential entrepreneur?

1. c; 2. b; 3 c; 4. a; 5 a; 6 c; 7. a; 8 c; 9. a; 10. c; 11. c; 12. a; 13. b; 14. c.

Score one point for each correct answer. Questions 1, 2, 3, 7, 9 and 12 suggest whether you are a realistic problem solver who can run a business without constant help from others. Questions 5, 6 and 8 probe whether you take calculated risks and seek information before you act. Questions 4, 10, 13 and 14 show whether you, like the classic entrepreneur, find other people most satisfying when they help fulfill your need to win. Question 11 reveals whether you take responsibility for your destiny--and your business. If you score between 11 and 14 points, you could have a good chance to succeed. If you score from seven to ten points, you'd better have a superb business idea or a lot of money to help you out. If you score seven or less, stay where you are.

(Money. March 1978, p. 52) Reprinted from the March 1978 issue of Money Magazine by special permission; ©1978, Time Inc. All rights reserved.

ASSESSMENT TWO

1. List five products that have entered the consumer market within the last five years. Explain how you believe the factors of supply and demand have affected the price of each product.
2. Describe how the Committee for Economic Development and Small Business Administration differ in their definitions of a small business.

POSTASSESSMENT

1. Describe small business using the Small Business Administration (SBA) definition.
2. Identify three of the most common reasons for business failures.
3. Explain the importance of a business making a profit.
4. Describe the importance of small business in our economy.
5. Identify two advantages of being a small business.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

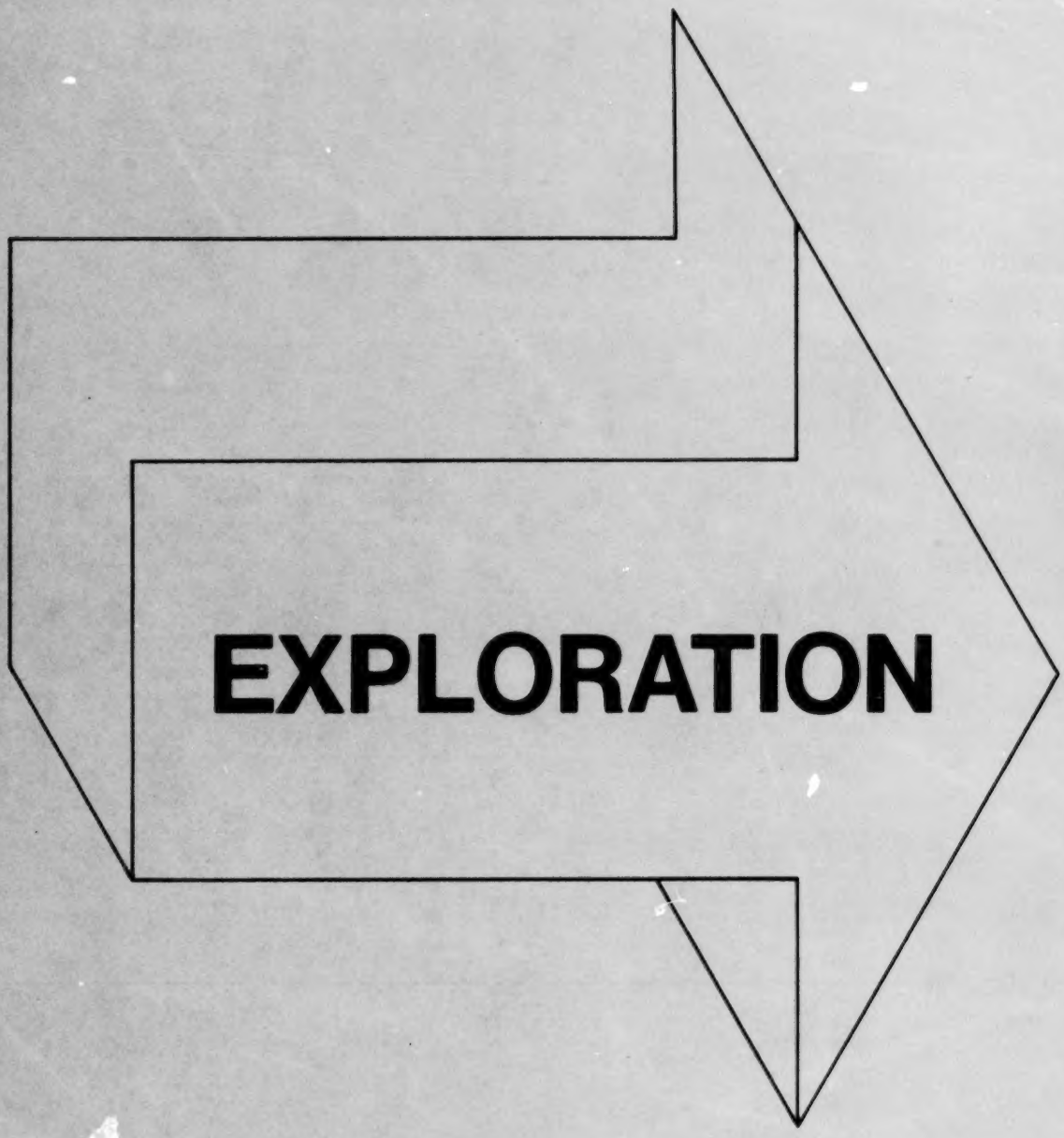
How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.


EXPLORATION

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exploration Activities" section and measure what you've learned.

1. Why is business competition so basic to our economy?
2. What do all small businesses have in common?
3. What is a small business?
4. How do small manufacturing firms, retail businesses, wholesale enterprises and service establishments differ?
5. Describe the biggest problems small businesses have today.

TEACHING/LEARNING OBJECTIVES

Upon completion of this level, you should be able to:

1. Explain the major groupings of small businesses, their importance to our economy, and specific problems each group faces in terms of failure rates.
2. Explain the reasons why it is difficult to define small business.
3. Identify the characteristics of small businesses.
4. Discuss the importance of small business.
5. Describe how supply and demand work in our economy.
6. Describe competition in our economy.

SUBSTANTIVE INFORMATION

UNDERSTANDING SMALL BUSINESSES

HOW IMPORTANT ARE SMALL BUSINESSES?

To determine the importance of small business to our economy, consider these questions:

(1) When is a business "small"?

(2) Is the number of small businesses growing or declining?

Keep these questions in mind as you read about the different types of firms discussed in this level.

Understanding the small business in our economy is difficult. Since most small businesses are sole proprietorships, they are not required by law to adhere to disclosure rules which apply to big companies that are normally publicly owned. In July 1973, Chase Revel ran an ad in The Wall Street Journal which read, "Insider's Report. How much profit does Joe's business make (exactly)? Any small business. Case history, details including how to start one." Chase Revel was shocked to find his $45 ad resulted in $2,000 in subscriptions. At that time he hadn't even published a single copy of the periodical. Obviously information about small businesses was in demand.

> *...Insider Report soon began rolling off the presses. It contained research reports on small business opportunities and exposes of schemes designed to separate would-be businessmen from their cash.*

The publication's name was changed to International Entrepreneurs magazine after several others claimed the rights to the Insider Report name and lengthy litagation seemed likely. Circulation has grown to 30,000. His original investment in the publication was only $5,000.

The reports have covered some unusual small businesses, including balloon vendors, sea urchin picking, outhouse rental, telling people off by proxy, overnight office painting, and rent-a-sheep. Revel has a list of 36 businesses which you can start with less than $2,000. (The Los Angeles Times, July 17, 1977, Part IV, p. 1) Reprinted from The Los Angeles Times.

Today Chase Revel is director of International Entrepreneur's Association, a management consultant firm. He has authored six books on starting small businesses and is the editor of International Entrepreneurs magazine.

TYPES OF SMALL BUSINESSES

DO SMALL BUSINESSES HAVE ANYTHING IN COMMON?

The size of a business is more important in certain types of businesses than in others. In general, it seems that small businesses predominate industries characterized by the following:

- initial capital requirements are low
- highly technical skills are not necessary
- potential market is highly centralized

Small Retail Businesses

WHAT ABOUT SMALL RETAIL BUSINESSES?

Retailers are the biggest group of small businesses. They represent about 40% of the 9.4 million small businesses. The retail group includes but is not limited to, florist, grocery stores, drugstores, restaurants, fast-food establishments, gas stations, and hardware stores.

Over half of the small businesses started last year were retail operations of some type. Grocery stores had the highest sales volume followed by automotive dealers, general merchandise stores, and eating and drinking places. Restaurants, grocery stores, and department stores employ the most workers. Retail franchise outlets account for 5-10% of the new retail businesses.

Small Service Businesses

WHAT ABOUT SMALL SERVICE BUSINESSES?

The second largest group of small businesses are service enterprises. Services can be tangible or intangible and are either provided at the customer's home or at the place of business. Examples of service enterprises include lawn care specialists, dry cleaners, beauty and barber shops, accountants, travel agencies, and janitorial service companies.

Both service and recreational enterprises are growing. Campgrounds, motels, instant printing centers and indoor tennis and racket clubs are opening up very rapidly. Discretionary income, the amount of money consumers have to spend after paying for basic food and shelter, has increased. Therefore, the number of businesses offering personal services has grown because people are more willing to pay for them. However, more failures occur in the service area than in any other type of business, with the exception of retail. About half of the new service businesses survive only eighteen months.

Small Wholesale Businesses

WHAT ABOUT SMALL WHOLESALE BUSINESSES?

The wholesale trade is the third largest group. Wholesalers perform a valuable service to businesses in the manufacturing and retail industry. Wholesalers are middlepersons who move goods between manufacturers and retailers for all types of businesses including groceries, drugs, hardware, and petroleum products.

Wholesale businesses can be grouped into three major types based upon their operating characteristics:

(1) Merchant wholesalers

(2) Manufacturer's sales branches

(3) Merchandise agents and brokers

Merchant wholesalers are those who typically sell many producers' goods to a variety of retailers, manufacturers, service firms, and other wholesalers through warehouse facilities. They are involved in buying and selling goods at wholesale cost. The term "at wholesale" means they do not ordinarily sell to ultimate consumers. Merchant wholesale firms are the most important type in terms of both sales and number of establishments. Manufacturer's sales branches are normally owned by large firms and sell only the manufacturer's products. Merchandise agents typically represent a few select companies and do not provide warehouse facilities.

Small Manufacturing Businesses

WHAT ABOUT SMALL MANUFACTURING BUSINESSES?

Manufacturing businesses are the fourth largest group of small businesses. They include furniture and apparel manufacturers, bakeries, toy manufacturers, and any other type of business that converts raw materials into usable products for purchase by ultimate consumers and industrial users. Small business is less prevalent in the manufacturing industry. The large initial investment in tools, equipment, and fixtures usually required to set up a manufacturing firm prevents the establishment of many small businesses.

Sixty percent of the total number of workers in manufacturing jobs are employed in one of three manufacturing industries: machinery, other than electrical and transportation equipment; electrical and electronic equipment; and food products. Although the number of small manufacturing firms is the smallest group, compared to retail, service, and wholesale; the importance of small manufacturers should not be underestimated. Small manufacturing firms provide big businesses with the goods they need to produce finished products. They also produce many "speciality" products that big businesses find too expensive to manufacture.

OPPORTUNITIES AVAILABLE

WHAT ARE THE OPPORTUNITIES FOR OPENING A SMALL BUSINESS?

Are the opportunities for opening a successful business the same in all industries? Recently, Money magazine surveyed twenty-six bankers, professors in school of business, Small Business Administration agents, members of Service Corps of Retired Executives, and executives of small business investment companies. They were asked to identify from a list of eighty-one most common small businesses those they felt had the best chance to succeed and those with the highest potential for failure. According to the survey results reported in the March 1978 issue of Money, the ten businesses most likely to succeed are: building material stores; auto, tire and accessories stores; liquor stores; sports and recreation clubs, funeral homes and crematories; seed and garden supply stores; sporting goods manufacturers; engineering; laboratory; and scientific equipment manufacturers; hardware stores; and office supplies and equipment stores.

The ten riskiest businesses to open according to Money magazine's survey are: local laundries and dry cleaners, used-car dealerships, gas stations, local trucking firms, restaurants, infants' clothing stores, bakeries, machine shops, grocery and meat stores, and car washes.

Capital Required

HOW MUCH CAPITAL DOES IT TAKE TO OPENT A BUSINESS?

Some small businesses can be opened with a small investment. Others require large amounts of capital. Regardless of how much is needed, however, having enough capital is crucial if the business is to succeed. Any business needs enough capital to cover initial expenses including inventory plus operating expenses until the business begins to make a profit. Undercapitalization is a major reason for business failure.

Since you are aspiring to be an entrepreneur, you will need to consider how much money it will take to get your business started. Generally speaking, opening a retail or service type business requires less initial capital than a manufacturing firm. Since a large capital investment is usually required for equipment and machines, manufacturing firms are most difficult to start up.

> *A number of hurdles confront the aspiring young scientific company. The flow of investment dollars has been diverted from the risky to more established. Equity financing has nearly dried up and most Small Business Administration loans are going to retail and service firms.*
>
> *Inflation is another major barrier. It's estimated that today it would require $10 million to launch a company such as Intel Corporation, the semiconductor concern that was founded a decade ago for $3 million. Data General Corporation, the minicomputer maker, opened its doors in the 1960's for about $800,000; today's cost would be about $5 million.* (The Wall Street Journal, November 17, 1977, p. 1) Reprinted by permission form The Wall Street Journal, © Dow Jones & Company, Inc. 1977. All rights reserved.

Changing Times has estimated "start-up costs" for several types of small businesses. The figures below will help you decide if you can afford to become an entrepreneur and may provide you with ideas as to where you might get the money needed.

THE MONEY IT TAKES TO GET A SMALL BUSINESS GOING

Type of Business and Annual Gross Sales	*Investment In Inventory*	*Total Capital Investment (For Start-Up And First Three Months' Operation)*
Building Maintenance Service $25,000 to $75,000		$8,000 to $ 6,000
Plant Shop $25,000 to $80,000	$5,000 to $10,000	$11,000 to $24,000
Bookstore $75,000 to $100,000	$12,000 to $20,000	$25,000 to $53,000
Beauty Salon Under $100,000		$15,000 to $29,000
Yarn Shop $50,000 to $100,000	$8,000 to $12,000	$16,000 to $25,000

Type of Business And Annual Gross Sales	*Investment In Inventory*	*Total Capital Investment (For Start-Up And First Three Months' Operation*
Repair Service		
Furniture		*$10,000 to $20,000*
Car		*$15,000 to $40,000*
TV/Radio		*$10,000 to $25,000*
Applicance		*$6,000 to $20,000*
Clock/Watch		*$8,000 to $12,000*
Shoe		*$15,000 to $25,000*
Business Machine		*$6,000 to $10,000*
Bicycle		*$6,000 to $10,000*
Contractors (Plumbing, Carpentry, Electrical, Etc.)		*$10,000 to $30,000*
Equipment Rental Service $50,000 to $20,000		
Camping/Recreation	*$7,500 to $15,000*	*$15,000 to $25,000*
Soft Goods (Party, Sickroom)	*$12,500 to $21,000*	*$25,000 to $35,000*
Fabric Store $100,000 to $200,000	*$25,000 to $35,000*	*$38,000 to $58,000*
Hobby/Crafts Store Under $200,000	*$20,000 to $30,000*	*$36,000 to $56,000*

Based on data in Bank of America's Small Business Reporter Series. (Changing Times, August 1977, p. 40) Reprinted by permission from Changing Times The Kiplinger Magazine, August 1977. Copyright 1977 by The Kiplinger Washington Editors, Inc., 1729 H Street, NW, Washington, DC 20006.

CHARACTERISTICS OF OUR ECONOMIC SYSTEM

WHAT ARE THE CHARACTERISTICS OF OUR ECONOMY?

To be a successful business owner, it is important to know as much as you can about the business field and have a good working knowledge of our economic system.

Imagine a big machine with many parts--that's our economic system. The system--the machine--depends on entrepreneurs to start new enterprises which will provide the parts--new goods, services, and jobs. Consumers who need goods and services and are concerned with quality, style, and savings are another part of the economic machine. Federal, state and local government agencies that promote the safety and welfare of the public, and provide services in the public interest are still another part.

Free enterprise involves voluntary cooperation among producers, consumers, and government. Our free enterprise system is a "market economy". Market economies depend on economic decision-making by three groups--producers, consumers, and government. Their decisions are guided primarily by the interplay of buyers and sellers in the marketplace. The real regulators of our market system are supply and demand.

Supply and Demand

HOW DO SUPPLY AND DEMAND WORK?

As consumers we have needs and wants. The importance or extent of our wants determines the price we are willing to pay for products or services. If producers have only a limited supply of the desired goods and services, prices will be high.

Other producers will recognize our demands, will realize that they are not being adequately met and will begin to develop similar versions of the popular goods and services.

The Cuisinart story is an excellent example of supply and demand factors at work.

> *Last Christmas, department store chains and gourmet cooking shops everywhere were selling empty boxes--worth $255 apiece--and doing a land-office business. The empty boxes were, of course, to be filled--as promised--with the first Cuisinart food processors the store got in stock. "We were just totally unable to keep up with demand,' says Cuisinarts' President and principal proprietor Carl G. Sontheimer, 63. "Every machine we get now goes toward redeeming those empty boxes. So the first four months will be tight, but after that we will be all right."*
>
> *The empty box promotion is typical of the kind of runaway success Stamford, Conn.'s Cuisinarts, Inc. has had since Sontheimer first introduced his revolutionary new food processor at the Chicago Housewares Show in January 1973. "This is a generalist machine in an age of specialty machines," Sontheimer says. The Cuisinart shreds, grates, grinds, slices, kneads, mixes and chops just about anything you'd care to dump into it, replacing most of the other appliances you'd normally keep in the kitchen.*
>
> *No vast advertising and promotion campaign launched the Cuisinart; it was the old story of the better mousetrap. The processor first made its way mainly by word of mouth, and then won the imprimatur of gourmet gurus like James Beard, Craig Claiborne, Julia Child, and Gourmet magazine. The Cuisinart looks, sounds, and comes on as French, but the company, like its proprietor, is as American as chop suey or apple pie, and so is its success in building a major new market in competition with*

giants. A mild-mannered rather rumpled-looking man of gargantuan girth, Carl Sontheimer is no consumer-goods whizbang. He's a physicist trained at the Massachusetts Institute of Technology, an electronics engineer, an entrepreneur and corporation executive, an inventor and a self-styled cooking nut. And it was all these talents, experience and proclivities that went into making Cuisinarts one of the most successful new businesses in America today. (Forbes, March 6, 1978, p. 65) Reprinted by permission of Forbes Magazine from March 6, 1978 issue.

Competition

HOW DOES COMPETITION AFFECT THE ECONOMY?

Competition is basic to our economic system. Competition makes our economy what it is--a system of free enterprise. The vitality of our economy is based on competition between producers. Those who supply the best goods and services at the best prices generally will be most successful. Businesses compete in several different ways. Lowering prices, giving more favorable credit terms, improving the quality of goods or services, and developing new features not currently available from others are all strategies to meet competition. Producers selling basically the same goods or services must try to attract customers by offering better services or benefits. Businesses that are unable to compete in terms of prices and quality are not usually very successful.

Competition benefits consumers as well as producers. It has aided the consumer by requiring the seller to improve the product, produce the product more efficiently, and operate the business more effectively to cut costs while preserving quality.

Consumers have never before had the choice and variety of products and services they have today. Since consumers benefit from competition, our government has traditionally sought to maintain a competitive business environment by establishing laws or regulations intended to prevent abuse. The first legislation Congress passed regulating business was the Sherman Anti-Trust Act in 1890. The objective was to prevent two or more entrepreneurs from restraining trade. Use of government regulation to maintain competition in many areas of business, such as food, transportation, and energy, is an ongoing debate.

Competition often leads to the development of new products and brings about great technological advancement. Consider some of the new products that have come into being in the last few years. Microwave ovens, food processors, small hand calculators, minicomputers, pantyhose, and all types of frozen foods are all representative of the constant change caused by competition. For example, there is probably no industry that changes more rapidly than the woman's fashions. Fablok Mills of Virginia quickly learned the impact fashion changes have on business.

> *Fickle feminine fashion has forced closure of a textile plant here which manufactured materials for panty girdles, now largely supplanted by the ubiquitous pantyhose.*
>
> *James F. Fleshman, manager of Fablok Mills of Virginia, Inc., said the plant's closing was simply a matter of changing styles and not enough demand for the product.*

Industry spokesmen said miniskirts and panty-hose have made panty girdles either obsolete or much shorter, with a result that much less of the stretch fabric is required.

In addition, it was pointed out, many wearers of panty girdles used them as a device for holding up conventional stockings as much as they did to control excess poundage on the anatomy. With the advent of pantyhose, they said, the girdles were simply abandoned.

Fablok Mills began operation here only 14 months ago. Last week the company handed out final paychecks to its last 33 employees.

Fleshman said the parent company Fablok Mills, Inc. of Murray Hill, New Jersey, has no plans for reopening the Louisa, Virginia plant.
(The Columbus Dispatch, April 5, 1970, p. 41)

Jeannette Orel has also discovered what competition means in our economic system.

This is the story of a woman who has spent the past four years perfecting a smokeless ashtray. The moral is that it isn't easy being an inventor these days.

Jeannette Orel didn't really understand that when she started out, she just wanted to do something about air pollution and figured a smokeless ashtray could be her contribution.

Convinced that the public was ready for such a product, she also was hoping to make some money off her idea, but there were a couple of things she didn't count on.

One was that it's not as easy to invent a smokeless ashtray as she had thought. The other was that she might run into competition.

Because Ms. Orel hung in there when the going got tough, smokers and non-smokers now have the Original Smoke Trapper Smokeless Ashtray. It sells for $19.95.

The free enterprise system works its wonders in predictable ways, however. One large company specializing in home gadgets, Ronco, introduced a similar contraption last year, selling for about half the price of the Orel device.

But that was just the beginning of competition. Last month, tennis star Billie Jean King announced plans to market another smokeless ashtray designed by her husband called the Clean Air King. And there may be others on the way.

All that, of course, might be seen as just another blessing for the American consumer. But, it's upsetting for Ms. Orel, whose business is faced with competition from more financially powerful and famous rivals.

"I'm not saying I was the first to ever think of a smokeless ashtray," she says. "But I've been selling mine for three years. Now these other people came along. Wouldn't you be scared?" (The Los Angeles Times, November 6, 1977, p. 18) Reprinted from The Los Angeles Times.

PROBLEMS OF SMALL BUSINESSES

WHAT PROBLEMS DO SMALL BUSINESSES ENCOUNTER?

Although there is not doubt that small businesses are the backbone of America's economy, many small businesses are fighting to survive. They are hampered by production and marketing costs and growing government intervention in the form of mandatory rules and regulations. In the past few years small entrepreneurs have been especially hurt by the rapid rise in interest rates caused by depressed markets brought on my more cautious purchasing consumer and industrial buyers, and economic inflation and recession periods that cause higher operating costs and prices. Small businesses find it harder to cope with these economic problems than large businesses.

"I would be nuts to go through this another season," sighs Ben Blanc, president of Callipe, Inc., a Philadelphia manufacturer of children's wear. In the past year his volume has shrunk form $250,000 to $150,000, his material costs have increased 25%, and his labor costs have risen 20%. But pinched by heavy inventories ("I overbought last year when I thought prices were right") and the drop in sales, he has been able to raise his prices on 15%. Blanc complains that only his bigger competitors can survive these days.

"Take Oshkosh B'Gosh, Inc. They can make something that sells for $3.75," he says. "Hell, I can't even start to make it for that." Another big problem is accounts receivable. More than 25% of last year's sales are on collection, a situation Blanc calls "deadly." Says he, "The collection agencies charge you 20% to collect, but my margin is only 16%, so I'm losing money collecting money." Blanc, who has been in business 15 years, concludes, "If we have another bad season, I will shut down."

Blanc's lament is repeated by small businessmen in virtually every industry in every part of the country. "The small businessman these days is like the guy in Las Vegas who prays, 'Please God, let me break even. I need the money,'" says Oliver O. Ward, head of the Smaller Business Association of New England. "Things are tough now, and it looks like they will be tough a long time coming." (Business Week, June 30, 1975, p. 96)

There are those who believe that the small business scene in our economy is not so gloomy. Whether economic conditions are good or bad for opening a small business, one thing is certain--deciding to become an entrepreneur and opening a business requires making difficult decisions. Having a successful business is possible, but it is hard work, and unrealistic expectations by the entrepreneur can cause problems.

Ninety-five percent of all businesses are considered small businesses by the Small Business Administration (SBA) and they account for about 43% of the gross national product.

But these statistics hardly give a clue to the tremendous effort involved in getting a new enterprise off the ground. Nor do they hint at the odds that are against keeping it going for any length of time. "Though the survival-probability rates are fragmented or dated, the evidence indicates that the risks have multiplied and the chances of making the grade have not brightened," said Bette Blondin and Rowena Wyant in a recent report for Dun & Bradstreet.

Difficulties in raising capital, a lack of adequate information, government red tape and problems of day-to-day management all seem to conspire against the entrepreneur. "Whether boom or recession, nine out of ten failures are traceable to managerial inexperience or ineptitude," says Dun & Bradstreet. The obstacles are such that it takes great initiative to strike out on one's own." (The Wall Street Journal, November 14, 1977, p. 1) Reprinted by permission from The Wall Street Journal, © Dow Jones & Company, Inc. 1977. All rights reserved.

EXPLORATION ACTIVITIES

Do you feel that you understand enough about the nature of small business? The following activities may help you apply some of these concepts to "real" situations. After completing the activities, check your understanding of the material with your instructor.

ASSESSMENT ONE

1. Explain why small businesses are more important in some industries than in others.
2. Interview two entrepreneurs in your community who sell basically the same products or services. Ask them to explain what they believe the future of small business is in our economy.
3. Select two businesses in your area that sell basically the same products. In written form, discuss how each competes with the other. In other words, what methods does each employ to attract customers?
4. List at least three products that you believe have been improved through competition and explain the improvements compared to the original product.
5. Visit what you think is a local small business. Ask the owner or manager if they believe the business is small, and the specific reasons why or why not. Is it because the firm has a small sales volume? Is it because it

employs a small number of workers? Compare what the entrepreneur tells you with the SBA definition. How are they similar? How do they differ?

POSTASSESSMENT

1. Explain why competition among businesses is basic to our economy.
2. Name and briefly describe two characteristics of small business.
3. What is a small business? Define.
4. Describe the differences among small manufacturing firms, retail businesses, wholesale enterprises, and service establishments in terms of size of businesses and the importance of each industry to the economy.
5. What are some of the major problems being faced today by small businesses? List and briefly describe each problem.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.

PREPARATION/
ADAPTATION

PREPARATION/
ADAPTATION

PART I, UNIT A
NATURE OF SMALL
BUSINESS

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Preparation/ Adaptation Activities" section and measure what you've learned.

1. How have changes in consumer behavior affected small businesses?
2. What are the advantages of being a small business?
3. Discuss the future of small businesses. Are you optimistic?
4. Discuss the types of small businesses that you feel are growing rapidly. Why are they doing so well?
5. Discuss the business you would like to own and why you believe it would be successful.

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction, you should be able to:

1. State some of the predictions being made about the future of small business.
2. Identify some of the consumer behavior changes having an impact on small business.
3. Identify some of the types of small businesses which are having real growth.
4. Identify the advantages of being a small business.
5. Describe the functions and services provided by the Small Business Administration.
6. Discuss the importance of economic conditions on small business.

SUBSTANTIVE INFORMATION

THE FUTURE OF SMALL BUSINESS

WHAT'S THE FUTURE OF SMALL BUSINESS?

Nearly every small business owner has engaged in some "crystal ball" activity to predict the future of small business. The failure rate of small business is alarming; in some sectors of the economy it has increased over the last five years. The trend toward conglomerates and mergers and the continued growth of large companies has caused some individuals to believe the future of small business is bleak.

> *Here at the Sting Restaurant, life is a 16-hour-day, six-day-a-week whirl for the Dallas family. The three-year-old restaurant consumes their time and energies as they try to balance reasonable prices with fresh food and homemade dishes while competing with the quick-frozen economics of the chain restaurants springing up around them. Within a short distance of the Sting, in the affluent Philadelphia suburb can be found such corporately owned dining spots as Stouffer's, Victoria Station, the Joshua Tree, Howard Johnson's the Dutch Pantry, and Valle's Steak House.*
>
> *The Dallas family is only too aware of the inroads that the chains are making in the restaurant business. Chains now run 24% of all U.S. restaurants, compared with 10% a decade ago, and by 1982 they are expected to account for as much as 35%, according to the National Restaurant Association. Partly as a result, it's estimated that nearly 40% of independently owned restaurants close down or change hands in their first year. "When we move into a neighborhood, local independents lose business," says Frederick Rufe, an executive of Marriott Corp., which owns the Joshua Tree chain."* (The Wall Street Journal, December 2, 1977, p. 1) Reprinted by permission from The Wall Street Journal, © Dow Jones & Company, Inc. 1977. All rights reserved.

Entrepreneurs of the Future

HOW MANY WOMEN AND MINORITY ENTREPRENEURS WILL THERE BE IN THE FUTURE?

Others are more optimistic. They believe that since government has encouraged the development of small businesses through such efforts as OMBE (Office of Minority Business Enterprises) in the Department of Commerce and the Small Business Administration (SBA) loan program for women entrepreneurs, the future of small business is bright. Esmark, Inc., a Chicago based firm, has estimated that the number of female-owned businesses reached 978,000 in 1976, more than double the number in 1972. However, of the 9.4 million small businesses in the United States, only about 5% are owned by women. Based on recent activities, it can be assumed that the number of women entrepreneurs is going to increase.

The latest available statistics on minority businesses, compiled by the Census Bureau in 1972, showed that there were nearly 400,000 minority-owned firms in the United States, of which about half were owned by blacks. Manufacturing was the most popular type of business being started by nonwhites. For many years, the government has been taking formal action to encourage minorities to become entrepreneurs. The Office of Minority Business Enterprises (OMBE) has sponsored many programs to help minority businesses. OMBE dispenses about thirty-five million dollars annually to organizations that assist minority business people, such as the Urban League and the National Business League. OMBE believes that there are opportunities for minority businesses in manufacturing, particularly in energy and electronics.

Those who are optimistic about the future of small business state that better education is available to prospective entrepreneurs, technological advances such as minicomputers are available at lower prices, and the increasing desire on the part of young people "to be their own boss" all point to a brighter future.

> *Robert Bjorkstedt went into business for himself distributing lightbulbs. His business went sour, but he managed to close down without taking a loss. What he learned in college, he says, saved him from making costly mistakes.*
>
> *Gary Martin is a 27-year-old systems analyst for General Motors who once had considered running his own company. But, he says, a college course showed him that he isn't cut out to be his own boss.*
>
> *These are just* (two) *of the 200 students who since 1971 have passed through Carnegie-Mellon University's course for budding entrepreneurs. The one-semester program at the university's highly regarded Graduate School of Industrial Administration aims to teach the fundamentals of starting up a business and the pitfalls to watch out for on the road to corporate success.* (The Wall Street Journal, December 9, 1977, p. 1) Reprinted by permission from The Wall Street Journal, ©Dow Jones & Company, Inc. 1977. All rights reserved.

Business Types Experiencing Rapid Growth

WHAT TYPES OF SMALL BUSINESS ARE EXPERIENCING GROWTH?

There is no question that in our economy more people are employees; most work for someone else. Yet some recent statistics show a trend towards small business ownerships. Consider the number of small catering shops, house plant stores, jewelry manufacturers, and various craft shops that have opened.

Money magazine recently surveyed twenty-six bankers, professors in schools of business, Small Business Administration representatives, members of Service Corps of Retired Executives and executives of small business investment companies throughout the United States. These individuals were asked to select those most successful and those most likely to fail from a list of eighty-one common small businesses. The results of the survey follow:

WHAT BUSINESSES ARE MOST LIKELY TO SUCCEED?

THE 10 BEST

1. *Building materials stores. Increased residential construction and do-it-yourself repairs should boost sales by 10% to 15% this year.*

2. *Auto tire and accessories stores. Today's car owners are doing more and more repair themselves, which should help produce a growth rate of about 9.7% this year.*

3. *Liquor stores. Industry growth is expected to run at least 11% in 1978. A hard working retailer can expect something over 35% profit on each dollar of sales.*

4. *Sports and recreation clubs. The growing interest in exercise is the key to future profits. A club requires a large initial investement and annaul fees of about $2 million to turn about $26,000 in profits.*

5. *Funeral homes and crematories. Small establishments make roughly $9,200 on every $100,000 they take in. Despite a decreasing death rate, the number of deaths remains around 1.9 million a year and is expected to increase with the senior-citizen population.*

6. *Seed and garden supply stores. The profit ratio is about the same as for sports clubs. Growth is expected to run about 8% to 9% ahead of last year.*

7. *Sporting goods manufacturers. Greater participation in outdoor sports is producing estimated growth ranging from 8% a year for bicycle and bicycle part producers to 19% for the makers of equipment for team sports and snow and water skiing.*

8. *Engineering, laboratory and scientific equipment. Because the aeronautical industry is rebounding, engineering equipment sales should grow about 12% this year. Manufacturers of scales and lab equipment can expect about 11% growth.*

9. *Hardware stores. Hardware stores also benefit from increasing numbers of do-it-yourselfers. High profit margins mean that hardware stores don't need huge sales volume; $650,000 in sales will produce $30,000 in profits.*

10. *Office supplies and equipment. This business is remarkably resistant to recession--a firm always needs office supplies. Profits are substantial; every $ million in sales can return $40,000. Predicted 1978 growth: about 8%.*

THE 10 WORST BUSINESSES TO OPEN

WHAT BUSINESSES ARE THE MOST LIKELY TO FAIL?

1. *Local laundries and dry cleaners. Since 1972, improved home laundry systems and the increasing use of synthetic fabrics have slowed growth in this business. Older, established cleaners have stayed alive by providing extra services, such as rug cleaning.*

2. *Used-car dealerships. Banks have generally soured on making loans to used-car dealers and their customers because of the high risk involved. Current predictions show the business shrinking in 1978.*

3. *Gas stations. Competition and thinning profits have tarnished these once lucrative franchises. To earn $30,000 a year, a station would have to gross about $1.8 million.*

4. *Local trucking firms. The high cost of unionized labor and government regulation make this a risky enterprise. Growth prospects are sluggish.*

5. *Restaurants. No other business attracts as many prospective entrepreneurs as this one does. Growth potential is good, about 10% in 1978, and profits aren't all that bad, about 3.5% if you are successful. Still, "for every one that succeeds, probably a dozen fail for lack of management know-how." says Sam Siciliano, a Salt Lake City SBA official. Fast-food franchises offer management assistance, but a major franchise like McDonald's or Burger King requires a cash investment of $85,000 or more.*

6. *Infants' clothing stores. Babies are hardly booming, and retail clothing stores, particularly small, independent ones, are encountering slow demand and stiff competition.*

7. *Bakeries. Supermarket bakery departments make survival tough for independent stores. Shops that make it do so by offering specialized services.*

8. *Machine shops. Over 5,000 independent shops make this business highly competitive. Each $100,000 in sales yields an average $3,300 in pretax profits.*

9. *Grocery and meat stores. Unless these stores offer special services, like delivery, the going gets rough.*

10. *Car washes. High turnover, strong competition and high capital investment make this one of the least attractive for the entrepreneur.* (Money, March 1978, p. 51) by Marlys Harris. Reprinted from the March 1978 issue of Money Magazine by special permission, © 1978, Time Inc. All rights reserved.

The seasonal business is another type of small business that is growing rapidly. Seasonal businesses can be retail, wholesale, service or manufacturing firms that are planned so that their major sales volume is during a particular time of the year. The rest of the year the business plans to operate in low gear, if at all.

> *Seasonal enterprise is indigenous to summer or winter resort areas, but there are many other non-resort businesses that lend themselves to this concept. Seasonal businesses can also be tailored to fit around the hours of another job--or the demands of a growing family. Some people are able to live wholly off their seasonal profits; others are content to earn a valuable supplementary income.* (Family Circle, February 3, 1978, p. 48)

Claudia Jessup and Genie Chipps are co-authors of A Woman's Guide to Starting a Business published by Holt, Rinehart and Winston. In a Family Circle article they listed twenty small seasonal businesses that have been successful.

20 OF THE MOST SUCCESSFUL SEASONAL BUSINESSES

Retail

- *Boutiques can be seasonally profitable in resort, tourist areas. Consider resort wear, souvenirs, local crafts and jewelry.*

- *Stalls in flea markets, shopping malls, are good locations. Profitable ideas: organic cosmetics, books, crafts, decorator items, closeouts on small kitchen utensils, housewares.*

- *Sidewalk vending is regulated locally with vendor's permits and available locations. Attract impulse buyers with inexpensive items: crafts, accessories, novelties, flowers, umbrellas, sachets and so on.*

- *Consignment Shops sell consigned goods on commission (20-40%). Can sell: art, clothing, antiques, toys, gifts and the like.*

Food, Glorious Food

In any season, selling food is the top retail business as well as the most closely regulated. Don't proceed with any food idea before investigating local zoning laws, health regulations, licensing, permits.

- *Restaurants with seasonal clientele do best with specialties: soups, salads, chili, ice cream, frozen yogurt, health foods.*

- *Pushcart Vending can require an outlay of $500 to $1,500 for the cart, depending on type. Most popular: hot dogs, ice cream, popcorn, ethnic goods like egg rolls, souvlaki, tacos.*

- *Catering can fit any season. You might specialize in canapes, hors d'oeuvres, birthday cakes, holiday baked goods, desserts, box lunches.*

- *Wholesale Foods are marketed in country and health food stores, gift shops, small groceries. Try: candies, jams, jellies, condiments, breads, pies, quiches, frozen main dishes.*

- *Campus Catering in college towns can start with direct-mail pitch to parents advertising exam "care" packages (boxed goodies delivered at exam time) and birthday cakes for the toiling student.*

- *Roadside Stands do best on a busy road with frontage for at least three cars (check zoning). Besides fresh produce, try: cut flowers, plants, regional goods, homemade baked goods, candles, handmade crafts.*

- *Over-the-Counter Prepared Foods involve setting up a retail shop in a prime location to catch seasonal crowds. Best bets: take-home main dishes and desserts.*

- *Specialty Franchises like ice cream and frozen yogurt can close down for the coldest northern months, providing a year's income in 9 months or less.*

For Services Rendered. . .

- *Flea Markets are very popular now. Find a large space to rent (parking lots, drive-in theater) and advertise for vendors (antique dealers, crafts people). Rent space at flat fee per day ($15 to $25 per space is usual).*

- *Home Services include animal care, feeding, plant or lawn care, mail forwarding, house-sitting or -airing. Distribute brochures listing services; base fees on time and any special skills you possess.*

- *Party Planning calls for imagination and organizational abilities. Standard fee is 25% of total budget. Work with caterers, rental halls, paper-goods outlets to offer discount arrangements. Charge minimum fee for consultation; obtain advance deposit.*

- *Party Entertainment can draw on talents as a clown, magician, puppeteer at children's parties. Charge flat fee plus overtime.*

- *Tour guides can coordinate and run: regional bike tours, nature, bird-watching hikes, back-packing, star-gazing, historic walking tours. Advertise in travel guides, travel sections in newspapers; talk to Chambers of Commerce, travel agents, hotels, tourist information centers.*

- *Child Care can be: play groups, kiddie taxi service, after-school care, baby-sitting. Check state/local regulations on businesses involving children and insurance requirements.*

- *Classes (you can) teach your specialty: cooking, exercise, sports, gardening, crafts. Have adequate space, supplies; advertise locally, direct mail.*

- *Cottage Industry produces handmade crafts, foods, Christmas items. Final price must cover: marketing costs, raw materials, equipment, labor, overhead. Add a minimum 50% markup per item for profit.* (Family Circle, February 3, 1978, p. 160)

The growth of small business was recognized when former President Nixon proclaimed a "Small Business Week." In the Proclamation Statement, Small Business Week, 1974, he said: "The history of America is in large measure the history of independent enterprise. From the earliest days of our history, the trader and the merchant, pushing westward, laid the foundations for what has become the world's greatest economic achievement."

ADVANTAGES OF BEING SMALL

WHAT'S THE ADVANTAGE IN BEING SMALL?

Being small is not always a disadvantage. There are those who believe that this kind of business can capitalize on its smallness. The small business has greater flexibility, is able to adapt quickly to new or changing conditions, can provide more personalized service to its customers, and can specialize in goods or services to a greater extent.

In some certain situations, small businesses have a definite advantage. For example, a small business:

(1) Can have close "family" relationships with employees and some customers. Small business people know their employees and can normally meet with them daily. Because of these relationships a small business often has higher morale, and at times, higher productivity. Knowing the customers personally is certainly an advantage; their needs and wants can be more readily satisfied.

(2) Can offer personal "special" service to customers. Some types of businesses--such as the local interior decorating studio, the custom picture frame company, the architectural firm, and the child care center, provide the personal touch to customers.

(3) Can offer perishable materials efficiently. For example, the florist business can clear a profit while not necessarily benefiting from expansion. Small florists can join together in a "wire service" plan. They can serve a large market of potential customers over a large geographical area, thus taking care of local needs more efficiently.

(4) Can provide their services or products more efficiently. Real estate businesses that operate on a smaller local scale have proven to be quite successful. The recent growth of franchised real estate firms supports this. Small local brick and stone companies are another example. The cost of transporting such materials long distances is almost prohibitive.

Small businesses can also take advantage of government support. The role of small businesses in our economic system is not an accident. Special federal government programs for small businesses have helped them assume a healthy position in the economy.

Mismanaged large organizations have also provided advantages to small businesses. Because of the competition factor in our economic system, most of today's large businesses were at one time well-managed small businesses. They grew because the firm's leadership and personnel had the skills and training to manage the business successfully. It is probably accurate to say that there

are many small businesses today that will be the big businesses of tommorow.

> *Shaklee Corporation is a good example of a firm that began small and is today the seller of $245 million worth of good supplements, cosmetics and household items. In 1956, Shaklee, who was over 60, and two sons, began selling vitamins and food supplements out of senior Shaklee's basement. In 1973, the Shaklee business had sales of $75 million and went public selling 700,000 shares at $23 a share. The family continues to own 56% of the stock. Shaklee salespersons, most who are housewives and moonlighters, are all self-employed and sell the company's products by doorbell ringing and party throwing throughout the country.* (Forbes, October 15, 1977, p. 83) Reprinted by permission of Forbes Magazine from October 15, 1977 issue.

The small business owner will achieve success by using techniques that will promote the advantages of being small. The small firm ought to capitalize on these advantages, when appropriate, and not attempt to meet big business head-on. These advantages, combined with the increasing demand by consumers for specialized services and custom goods, suggest that small business will continue to have an important role in our economy.

CHANGES IN CONSUMER BEHAVIOR

HAVE CHANGES IN CONSUMER BEHAVIOR AFFECTED SMALL BUSINESS?

In today's environment, change is a key word. New enterprises enter the economy; some grow; others merge with other firms; and some become large conglomerates. Nothing seems to be too static in the business world. Energy crises and environmental controls create challenges for some businesses and opportunities for others. Social changes, such as the number of people in the labor market,

are significant to business. As more women return to work, the need and demand for more household conveniences, from microwave ovens to food processing machines, have increased. In the last fifty years, much has been done to make housekeeping easier. Dishwashers, dryers, blenders, mixers, can openers, freezers, and sweepers are a few of the labor-saving devices now on the market.

To complement the labor-saving appliances, new crease and soil resistant fabrics were developed. Food producers have produced frozen foods, diet foods, foods packaged for large families or individual servings, various sizes of cans, jars, and boxes, and specially wrapped packages to go from the freezer to the oven.

The increased number of working women has had substantial impact on our economy. In some families, working women provide additional income which allows the family to purchase goods that at one time were luxury items. Income in excess of that required for basic needs is called discretionary income; its amount has increased significantly in the past ten years. In 1950 only 23.8% of wives were employed outside the home; today, over 44% are in the work force. Many retailers have had to adjust their hours to accommodate working women. Most major grocery chains are open evening hours, and some are even open twenty-four hours a day.

More people are on the move. Years ago transportation was limited and people were confined to their immediate area. Now, with our vast highways, airplanes, automobiles, trains, and boats, more businesses are needed to provide mobile citizens with the services and goods they desire.

Another social change is caused by the overwhelming American desire to not be overweight. Businesses that provide goods and/or services for the "slim" look have been growing rapidly. In addition, the apparel industry has had to adjust according to this social change, producing more clothing in the smaller sizes, changing standard size labeling, and even modifying styles.

The age groups that will grow fastest in numbers between now and 1985 are the 25-44 range and persons under 5 and over 65. Other changes in society such as rising divorce rates, growth of the number of children attending preschools, and the credit explosion all have impacted on small businesses.

Change is no doubt inherent in the business world. The ability to cope with change is certain to be even more crucial in the years to come. Businesses will need to learn how to adapt to it; resisting change or having a "status quo" attitude will probably bring failure. Entrepreneurs who develop open mindedness and are innovative and creative will undoubtedly find their businesses profiting from change.

A classic example is Certron Corp., an Anaheim (Calif.) producer of blank cassette cartridges and precision computer parts. "There was simply no financing available for us," says Edwin R. Gamson, Certron's president, about a $600,000 operating loss reports last year when the oil crisis sent plastics prices soaring. "We stayed alive by trimming operations and keeping on a positive cash basis. The banks have been extremely cooperative with us, except in giving us money." After its big suppliers, DuPont and Monsanto, could not fill company orders during the shortage, Certron had to turn elsewhere for 50% of its materials. "Black market was out of the question," Gamson says. "Their prices were out of sight." So Gamson turned to the major airlines, purchasing their used plastic dishes, eating utensils, and cocktail glasses. With help from the health department we learned to clean them, grind them up, and use them over again," he explains. "We also bought used Kodak Instamatic film cartridges from film processors."

Certron had been selling cassette cartridges to Ford Motor Co. in several different colors, but adding the new materials gave the batches a muddy color. Undaunted, Gamson added black to disguise the polyglot antecedents. "And we convinced Ford they could have any color they wanted as long as it was black," he says with a grin. (Business Week, June 30, 1975, p. 98 and 100)

ECONOMIC CONDITIONS AND SMALL BUSINESS

HOW DO SMALL BUSINESSES AFFECT OUR ECONOMY?

How big is our economy? One way to measure the size of our national production is to add together the value of all the goods and servies we product in one year. The total is called the gross national product or GNP. Small businesses, according to the Small Business Administration (SBA), account for about 43% of the gross national product.

Business, small business in particular, has an effect on economic conditions, and is in turn affected by the prevailing economic climate. For example, during times of recession, many businesses find themselves appealing to new markets because of a decrease in their sales. Inflation is an economic factor which has many implications for businesses. Prices for food and services are continually rising, yet profit margins and incomes do not increase as rapidly. In recent times the energy supply has come to be an important factor. With present shortages and the uncertainty of future availability, the cost for energy is climbing. The growth of both government red tape and the business failure rate impact on small businesses. As businesses fail, those remaining are sharper and represent stiffer competition.

Other economic conditions which can affect small businesses are personal income and consumer confidence. That is, do people have the money to buy goods and services and do they want to? The labor supply is yet another factor to consider. During periods of high unemployment, the pool of qualified workers willing to work in small businesses is larger than during periods of low unemployement. Finally, the stability of prices contributes to the economic climate. The greater the price stability the more healthy the climate for starting a new business.

You can start some businesses on a "shoestring" but opening other enterprises requires large sums of money. Either type will require capital. Undercapitalization is often the major reason

why a business fails. You will need to have enough money to cover start-up costs until the business begins to break even. Start-up costs should include initial inventory; one-time expenditures, such as remodeling and equipment; three months' operating costs, and personal living expenses.

Changing Times has estimated the capital some typical businesses require. A service-type business requires less capital than a manufacturing business. Opening a hardware store with thousands of items will take more money than a handicraft consignment shop. Review the information below in terms of your business/ownership aspirations. Can you afford to become an entrepreneur?

Type of Business And Annual Gross Sales	*Investment In Inventory*	*Total Capital Investment (For Start-Up And First Three Months' Operation*
Repair Service		
Furniture		*$10,000 to $20,000*
Car		*$15,000 to $40,000*
TV/Radio		*$10,000 to $25,000*
Appliance		*$6,000 to $20,000*
Clock/Watch		*$8,000 to $12,000*
Shoe		*$15,000 to $25,000*

Business Machine		*$ 6,000 to $10,000*
Bicycle		*$ 6,000 to $10,000*
Contractors (Plumbing, Carpentry, Electrical, Etc.)		*$10,000 to $30,000*
Equipment Rental Service $50,000 to $200,000		
Camping/Recreation	*$ 7,500 to $15,000*	*$15,000 to $25,000*
Soft Goods (Party, Sickroom)	*$12,500 to $21,000*	*$25,000 to $35,000*
Fabric Store $100,000 to $200,000	*$25,000 to $35,000*	*$38,000 to $58,000*
Hobby/Crafts Store Under $200,000	*$20,000 to $30,000*	*$36,000 to $56,000*

Based on data in Bank of America's Small Business Reporter series. (Changing Times, August 1977, p. 40). Reprinted by permission from Changing Times, The Kiplinger Magazine, August 1977. Copyright 1977 by the Kiplinger Washington Editors, Inc., 1729 H. Street, N. W., Washington, D. C. 20006.

One basic principle of our economic system is freedom of opportunity. This means not only the right to select one's employer but also the right to become an entrepreneur. The decision to become an entrepreneur is an individual one and involves consideration of many factors, including the existing economic climate.

SMALL BUSINESS ADMINISTRATION

WHAT'S THE SMALL BUSINESS ADMINISTRATION ABOUT?

In 1953 the United States Congress passed the Small Business Act which authorized the Small Business Administration (SBA). The SBA was originally a Korean War program that dealt with military contracts which supplied small plants. The SBA's major purpose is still to aid small business in bidding on government contracts.

In recent years the SBA has been strongly criticized. There are those who believe the SBA is not doing the job it was developed to do. They feel that the SBA is not an advocate for small businesses, that it does not "campaign" enough with Congress and legislators on behalf of small business. The June 30, 1975 issue of Business Week included an article on the SBA controversy.

A BOX SCORE ON THE CONTROVERSIAL SBA

It is the official national policy that small business deserves a thumb on the scale to help balance the greater financial muscle and managerial sophistication of the big corporations. But with just over 4,000 employees, a fiscal 1976 budget of $119-million, and a rather hazily defined constituency, the Small Business Administration, which is charged with carrying out that policy, has little hope of being an aid to more than a handful of the close to 10 million small businesses in the country. It generally gets good marks for what it does, but a lot of heated criticism for not doing a lot of other things.

The SBA is generally thought of as a lending agency. Most of its loans, however, now come from private lenders with SBA guarantees of repayment. In a typical year, SBA borrowers range from such small but established companies as Replogle Globes, Inc., of Chicago (which got $650,000) and Intermountain Rubber Industries, of Commerce City, Colo. ($580,000), down to "mom-and-pop" establishments that needed only $1,000: Zapata's Tamale & Burrito Co. in Denver and Shirley's House of Beauty in St. Louis. The loans are supposed to be only for ventures that cannot raise the money, and are riskier than normal bank deals.

SBA-guaranteed loans are not cheap. The current interest ceiling is 10.25% and the big urban banks tend to charge that. In contrast, the interest rate on direct loans--a rate set by Congress--is a bargain 6.75%. But that money is hard to come by. The SBA saves it for the very riskiest ventures--most often minority-owned businesses--or very special cases where a bank just will not come through, even with a guarantee. The Small Business Committees in Congress constantly lean on the SBA to make more direct loans. But the agency prefers to guarantee because they lessen the fiscal impact of government spending and reduce the subsidy element--a reduction that the agency brass thinks makes the program more politically palatable.

The agency is also criticized for making the wrong kinds of loans. Karl H. Vesper, a University of Washington business professor, for instance, argues that the SBA's loans should be oriented more toward maintaining small, struggling service establishments. "The government uses its money to immortalize dinosaurs such as Lockheed and Penn Central rather than help a small business that could eventually replace them," he says.

Red Tape. Businesses complain about delays in getting SBA O.K.'s on their applications. The average processing time is 29 days, even though local offices have authority to act on most loans. Deputy Administrator Louis F. Laun concedes that "our processing has fallen further behind than we thought it had," attributing some of the delays to overcaution in the wake of revelations that some local offices had been making a string of unlawful loans.

The agency's mandate, however, reaches well beyond financing, and its officials are putting increasing emphasis on helping small businesses to improve their managerial techniques and pressuring to get them a fair shake from government. All new loan applications for instance, are now reviewed by local SBA management experts as well as by financial specialists. The deal is often contingent on the borrower's taking some management training--a proviso that has drawn a lot of flak from black borrowers, who have called such demands racist.

The SBA has recruited thousands of retired executive volunteers and college business students to provide counseling for small entrepreneurs. The agency is now conducting "austerity management" seminars in 80 cities. "Small business is hurt in a recession because it is generally operating with less liquidity," explains Henry Warren, head of the agency's management services. "Where he is hurt, he is hurt very rapidly." The entrepreneurs are given tips on how to drum up new business and how to slice expenses (examples: call suppliers collect, lay off marginal employees, demand rent reductions).

Its Charter. The SBA was created in 1953 as an outgrowth of a Korean War program that earmarked certain military supply contracts for small plants. And it is still a major aim of the organization to counter the fact that, as Administrator Thomas S. Kleppe puts it, "a lot of little companies don't know the first doodley-run-bum about bidding on a government contract."

Kleppe, 55, a two-term Republican congressman from North Dakota, became head of the SBA in January, 1971.

His agency continues to goad other government agencies to set aside contracts for bids only from small companies, and about one-third of all government procurement is now done that way. In addition, close to $300 million worth is bought from minority-owned small businesses with no bidding at all.

But besides trying to see that government helps small business, the SBA is trying to assure that government does not hurt small business. The agency's efforts were underscored this week when President Ford told a small business group in Washington that "I want small business released from the shackles of federal red tape."

The SBA has always tried to be a pressure point for small business in Washington. Kleppe takes credit for persuading Congress to include used equipment in the investment tax credit law, for instance. But a formal organized advocacy effort got off the ground only last fall. Its intent is to plead small business' case before other federal regulators and to see that each agency has some official charged with making sure that rules are not drawn without thinking about the special problems of small business.

A Typical Case: The Food & Drug Administration (FDA) recently proposed new food storage regulations that small packers say would be unbearably expensive for them. The SBA found out that the FDA checked out the proposed rules only with the industry's largest manufacturer. The FDA is now consulting with small companies and will rewrite the standards.

Such cases are not uncommon. When Milton Stewart, president of the National Small Business Assn., is asked how government can help small business, he [illegible]. "To start with, get off our backs." Bureaucrats, Tom Kreppe's goal is to make sure that other bureaucrats do just that.

The Government's Role
In Small Business Lending

Fiscal Year	Number of Loans	Millions of Dollars Total Amount	Millions of Dollars SBA Share*
1960	3,707	$ 173.5	$ 148.9
1961	5,062	261.3	225.1
1962	6,373	380.6	316.7
1963	6,282	337.6	265.8
1964	6,537	342.1	275.6
1965	14,034	472.4	391.1
1966	12,686	444.7	371.9
1967	11,830	504.5	420.0
1968	13,100	624.3	505.7
1969	14,523	699.3	570.1
1970	15,102	709.6	596.0
1971	21,495	1,122.7	963.2
1972	28,025	1,573.8	1,360.8
1973	33,948	2,196.2	1,915.8
1974	27,485	1,947.8	1,698.6
1975**	20,280	1,442.3	1,259.8

* *Includes both direct loans and guarantees*
** *BW estimate*

(**Business Week**, June 30, 1975, pp. 100 and 101)

PREPARATION/ADAPTATION ACTIVITIES

Are you able to apply your knowledge of the nature of small business to your business aspirations? Are you totally familiar with economic factors, consumer behavior changes and types of small businesses that have an impact on entrepreneurship? The following activities should help you check your knowledge of the nature of small business.

ASSESSMENT ONE

1. Make a list of the services the SBA provides to small businesses based on the article you just read in Business Week.

2. Would you approve some form of legislation, either state or federal, that would establish minimum qualifications for entry into a given type of business? Why? Why not? If you believe standards ought to be established, what type (kinds) of standards do you think would be appropriate?

3. Write a three- to four-page paper describing an existing small business and tell in your report why you think it is or is not successful, and how it could be improved.

4. Explain the importance of small business to the nation's economy.

POSTASSESSMENT

1. Identify three changes in consumer behavior that you believe have had an impact on small business.

2. Name and briefly discuss three advantages of being a small business.

3. What do you believe is the future for small business? Are you optimistic? How did you reach your conclusions about the future of small business?

4. Identify some of the types of small businesses which are having real growth. Why do you think they are doing so well?

5. Identify a business you aspire to own and explain why you believe the business would be successful.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.

BIBLIOGRAPHY

Cook, J. "Carl Sontheimer's Better Mousetrap." Forbes March 6, 1978: 65-66.

Harris, M. "Do You Have What It Takes." Money, March 1978: 49-54.

Heinzel, R.S. "Riches-To-Rags-To-Riches Story: An Entrepreneur Sells Experience." The Los Angeles Times, July 17, 1977: Part IV: 1-7.

Jessup, C. and Chipps, G. "Seasonal Businesses Work Now." Family Circle, February 3, 1978: 48 and 160.

Klein, F.C. "The Venturers: Doyle Hayt Survives Bankruptcy, Succeeds Second Time Around." The Wall Street Journal November 29, 1977: 1.

Machalaba, D. "The Venturers: Bob Dallas Is Fighting Chains and Exhaustion With Small Restaurant." The Wall Street Journal, December 2, 1977: 1.

May, R.B. "The Venturers: John Massy Struggles To Keep An Idea Alive On Bare-Bones Capital." The Wall Street Journal, November 14, 1977: 1.

Meeting Special Problems Of Small Business. New York: Committee for Economic Development, 1947: 14.

Overend, William."Inventor's Pipe Dream Going Up In Smoke?" The Los Angeles Times, November 6, 1977: 18.

"Panacea, Placebo, Nostrum, Amen." Forbes, October 15, 1977: 83.

"Panty Girdles Lose Out To Miniskirts." Columbus Dispatch, April 5, 1970: 41.

Pappas, V. "The Venturers: Colleges Are Replacing School Of Hard Knocks For Some Businessmen." The Wall Street Journal, December 9, 1977: 1.

Shaffer, R.A. "The Venturers: How Fusion Systems Blundered To Success With Exotic Product." The Wall Street Journal, November 17, 1977: 1.

"Small Business: The Maddening Struggle to Survive."
Business Week, June 30, 1975: 96-101.

"Small Businesses You Can Start On $6,000 And Up."
Changing Times, The Kilplinger Magazine, August 1977: 40.

SOURCES TO CONSULT FOR FURTHER INFORMATION

MacFarlane, W. H. Principles of Small Business Management. New York: McGraw-Hill Book Co., 1977.

"Revel To Offer Expert Business Advice." The Los Angeles Times, July 31, 1977: Part VIII: 3.

Small Business Administration, Washington, DC: Government Printing Office.

__ . Analyze Your Cost of Marketing. Management Aid no. 85.

__ . Is Your Cash Supply Adequate? Management Aid no. 174.

__ . Six Methods for Success in a Small Store. Small Marketers Aid no. 127.

__ . Sweeping Profit Out the Back Door. Small Marketers Aid no. 138.

__ . Value Analysis for Small Business. Technical Aid no. 87.

RESEARCH AND DEVELOPMENT SERIES NO. 194 A-1

PACE

A Program for Acquiring Competence in Entrepreneurship

Instructor's Guide

Part I
Getting Ready To Become An Entrepreneur
Unit A
Nature Of Small Business

THE NATIONAL CENTER
FOR RESEARCH IN VOCATIONAL EDUCATION
THE OHIO STATE UNIVERSITY
1960 KENNY ROAD • COLUMBUS, OHIO 43210

USING THE INSTRUCTOR'S GUIDE

The Instructor's Guide contains the following:

- Teaching/Learning Objectives (identical to the Teaching/Learning Objectives found in the PACE unit)
- Teaching/Learning Delivery Suggestions
- Pre/postassessment Suggested Responses

This information is geared towards the three levels of learning, and is designed for use as a supplemental teaching aid. Additional instructions for using PACE, sources of information, and an annotated glossary can be found in the PACE Resource Guide.

PRE/POSTASSESSMENT
SUGGESTED RESPONSES

EXPOSURE

1. According to the Small Business Administration (SBA) a small business is "one which is individually owned and operated and not dominant in its field of operation."

2. Look for the following respones: lack of experience, lack of money, wrong location, inventory mismanagement, too much capital in fixed assets, poor credit-granting practices.

3. If a business does not produce profits it cannot survive.

4. Of the 13.1 million businesses in the United States, 9.4 million are small businesses. Small businesses account for 43% of the gross national product. These figures point out the importance of small business in our economy. Of course, the importance of small business is relative to industry type. For instance, retail stores constitute the largest number of small businesses (approximately 40%), while manufacturing is dominated by big business concerns.

5. Look for the following responess: small businesses are more flexible, small businesses can concentrate on smaller segments of markets, small businesses can quickly react to such concerns as competition and general economic conditions.

EXPLORATION

1. Competition is at the heart of our economic system. It affects products, buyers, and sellers. It helps buyers because it prompts sellers to improve product quality while reducing costs. It helps sellers because it leads to development of new products and promotes entry of new firms.

2. Look for respones that include descriptions of the following: low initial capital requirements, highly centralized potential markets, highly technical skills unnecessary.

3. Look for responses that note difficulties of defining small business. These difficulties include absence of disclosure, laws of sole proprietorships, and different criteria used to determine small business in various types of industries.

4. Forty percent of all small businesses are retailers. The next largest group is service enterprises, followed by wholesalers, then manufacturers. Because of the initial investment requirements, small manufacturers are the least prevalent.

5. Look for the following responses: rising production and selling costs, increased government intervention through rules and regulations, tight money resulting in higher interest rates and depressed markets.

PREPARATION/ADAPTATION

1. Look for the following respones: consumers want more leisure so they buy more labor saving appliances, consumers have more discretionary income so they buy luxury goods, more and more of consumers' income is being earned by women, consumers are more geographically mobile, consumers are more weight conscious.

2. Look for these respones: a small business has greater flexibility and can adapt quickly to new or changing conditions, a small business can provide more personalized service to customers, a small business can specialize in a product or service, a small business receives support from government agencies.

3. Respondent should consider such factors as government support, rate of failure, preparation methods, and opportunities for minorities and women.

4. Look for the following responses: auto accessories stores; building materials stores; liquor stores; sports and recreational clubs; funeral homes and crematories; seed and garden supply stores, hardware stores; manufacturers of sporting goods and engineering, laboratory, and scientific equipment; office supplies and equipment stores.

5. Respondent should identify a business and consider the initial amount of capital required and expected growth rate.

LEVELS OF LEARNING	TEACHING/LEARNING OBJECTIVES Upon completion of this level of instruction you should be able to:	TEACHING/LEARNING DELIVERY SUGGESTIONS A variety of different teaching/learning methodologies have been used. To help you organize your work and plan the use of this level these suggestions are made:
Exposure	1. Define small business. 2. Identify some of the factors used in defining a small business. 3. Explain what is meant by "the profit motive." 4. Define profit, supply and demand, and freedom of choice. 5. Describe the role of small business in our economy. 6. Name some of the major causes for business failures.	1. Contact your local Chamber of Commerce, Better Business Bureau, local retailers and manufacturers to get samples of products and services that were not available in your community two years ago. 2. Attempt to locate a business owner in your community who opened the business within the last three years. 3. If you are located near an SBA field office, arrange for one of the staff members to meet with the group. 4. Ask a local entrepreneur to meet with the group to discuss the relationship of profit motives and supply and demand to small business.
Exploration	1. Explain the major groupings of small businesses, their importance to our economy and specific problems each group faces. 2. Explain why it is difficult to define small business. 3. Identify the characteristics of small businesses. 4. Discuss the importance of small business. 5. Describe how supply and demand work in our economy. 6. Describe competition in our economy.	1. Attempt to locate a small business owner in your community who is active in community affairs. Invite the person to meet with the group to discuss the future of small businesses in your community. 2. Invite a local entrepreneur who recently opened a business to speak to the group. Topics covered can include initial investments and start up costs.
Preparation/Adaptation	1. State some of the predictions being made about the future of small business. 2. Identify some of the consumer behavior changes having an impact on small business. 3. Identify some of the types of small businesses which are having real growth. 4. Identify the advantages of being a small business. 5. Describe the functions and services provided by Small Business Administration (SBA). 6. Discuss the importance of economic conditions on small business.	1. Invite a Small Business Administration member to meet with the group to focus on the existing controversies regarding SBA. 2. Ask a local entrepreneur to discuss with the group how changes in his or her products or services have reflected changes in consumer behavior.

The PACE series consists of these parts and units.

PART I: GETTING READY TO BECOME AN ENTREPRENEUR

- Unit A: Nature of Small Business
- Unit B: Are You an Entrepreneur?
- Unit C: How to Succeed and How to Fail

PART II: BECOMING AN ENTREPRENEUR

- Unit A: Developing the Business Plan
- Unit B: Where to Locate the Business
- Unit C: Legal Issues and Small Business
- Unit D: Government Regulations and Small Business
- Unit E: Choosing the Type of Ownership
- Unit F: How to Finance the Business
- Unit G: Resources for Managerial Assistance

PART III: BEING AN ENTREPRENEUR

- Unit A: Managing the Business
- Unit B: Financial Management
- Unit C: Keeping the Business Records
- Unit D: Marketing Management
- Unit E: Successful Selling
- Unit F: Managing Human Resources
- Unit G: Community Relations
- Unit H: Business Protection

RESOURCE GUIDE